



Washington State Board of Accountancy

Implementation of the Public Accountancy Act

October 25, 2002

*****draft*****

In the 2001 Legislative Session, Engrossed Second Substitute Senate Bill 5593 was enacted, changing the Public Accountancy Act (Act). The revisions included a provision for the Board of Accountancy to report, by December 1, 2002, to the Senate Committee on Labor, Commerce, and Financial Institutions and to the House Committee on Commerce and Labor on the implementation of this Act, including but not limited to the provisions governing nonlicensee owners of CPA firms and the fiscal impacts. In fulfilling this Legislative requirement, this report addresses the following: implementation issues, non-licensee owners of CPA firms, status of rules and policies to implement the Act, fiscal impact, and other relevant activities.

Implementation Issues

As a result of its rule making process, the Board identified the following technical flaws in the new Act:

- The Act contains conflicting provisions on the grace period provided for firms to report changes in ownership to the Board. RCW 18.04.195(5) allows firms *90 days* to provide notice to the Board of changes in ownership whereas RCW 18.04.195(6) allows firms *30 days* to provide notification of changes in firm ownership.
- RCW 18.04.195 should be clarified to state that all owners of CPA firms must be natural persons.

Nonlicensee Owners of CPA Firms

The issue of how to soundly implement the new statutory provisions allowing for nonlicensees to be minority owners in a CPA firm was addressed at great length during the Board's rule making process. As a result, to support public protection, by way of rule the Board requires resident nonlicensee owners to:

- Pass the same ethics examination that CPAs are required to pass in order to be licensed, and
- Take four hours of ethics continuing education every three years in order to retain the right to hold an ownership interest in a CPA firm. This mirrors the ethics requirement for CPAs.

The Board believes the ethics examination and continuing education requirement support public protection by ensuring a nonlicensee owner will have the same exposure to professional ethics that a CPA owner of a CPA firm would have. We believe this solution has effectively mitigated concerns with the ethical practices of nonlicensee owners. Of note, although the provision for non-licensee owners has been available for over one year, only one individual has registered with the Board and we have not received a complaint regarding non-licensee owners.

Status of Rules and Policies to Implement the Act

Upon passage of the bill, the Board immediately drafted rule proposals revising virtually 100% of the Board's rules. We held four rules hearings across the state, revised all of the proposals based on public comment, and finalized new rule and policies effective March 14, 2002. Copies of the Act and rules were mailed to Washington's 15,400 CPAs and 2,000 CPA firms.

Fiscal Impact

The agency anticipates the actual fiscal impact to align closely with the projection in the fiscal note submitted on E2SSB 5593 (2001). With the special legislative authority provided by the Act, by way of the rule making process, the Board raised license fees. As such, revenues are projected to adequately cover the FY03/05 budget request submitted to the Office of Financial Management for consideration.

Certain external factors may impact the agency's future ability to operate within its current budgetary level:

- Complex investigations dealing with multi-state and/or international CPA firms,
- The Board's new consumer awareness program may increase the number of complaints against CPAs, and
- The SEC's resolution of outstanding cases may instigate referrals for Board investigation.

The Board will continue to work with the Office of Financial Management to ensure budgetary issues are promptly and appropriately addressed.

Other Relevant Activities

The Board has established an Independence Review Committee charged with reviewing the effectiveness of the Board's rules concerning auditor independence and conflict of interest. This Committee is composed of representatives from the Board, the profession, and key stakeholders including: retirement funds, labor, investment, banking, government, governmental contractors, small business and industry. The Board anticipates using the Committee's work to ensure the Board's rules governing CPA independence soundly protect Washington's citizens.

Additionally, to encourage broad public input into the Board's future discussions regarding the regulation of accountancy, in May 2002 the Board sponsored an Advisory Council (see Council roster on Page 3) comprised of 27 individuals representing a broad spectrum of stakeholders. As a result of its deliberations, the Advisory Council identified several conceptual areas for future review:

- Adequacy of enforcement over individuals imposter CPAs,
- Whether fines provide sufficient deterrence,
- Self-reporting of violations by CPAs,
- Adequacy of CPA record retention requirements,
- Extending the experience (for licensure) look back period,
- Whether current interstate reciprocity requirements deter reciprocity, and
- Requiring firms to comply with other state licensing requirements prior to issuing a CPA firm license.

The Board appreciates the Council's thoughtful efforts and considers the Council's recommendations valuable. These conceptual areas require additional analysis, review by stakeholders, and, should the Board consider suggesting changes to the Public Accountancy Act, any such proposal would be forwarded through the Governor's established Departmental Request Legislation Process. If you wish to obtain a copy of the Advisory Council's report to the Board, please contact the Board at: 360-586-0785.

Conclusion

The Washington State Board of Accountancy appreciates the opportunity to present this information to the Legislature. We are available to provide additional information to meet the Legislature's needs.

Respectfully submitted by,

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Washington State Board of Accountancy

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Fred Hellberg, Senior Executive Policy Advisor
Zoe Foltz, Vice Chair
Barbara Adams, Secretary
Sharron O'Donnell, Member
Dana McInturff, Executive Director

Rufino Moraleja, Member
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Laurie Tish, Member
Ron Sabado, Member
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Washington State Board of Accountancy Advisory Council Roster

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James W. Caley, CPA, Chair, Board of Accountancy
The Honorable Georgia Gardner, Washington State Senate
The Honorable Don Carlson, Washington State Senate
The Honorable Steve Conway, Washington State House of Representatives
Jim Boldt, Washington Society of CPAs
James Coates, CPA, Washington Society of CPAs
Mark D. Cruzan, Partner, Ernst & Young LLP (The Accounting Coalition)
Mel Curtiss, Esq., Director of Investigations and Legislative Liaison, Board of Accountancy
Victoria Galinato, President, Filipino American Association of CPAs
Dr. Norman Gierlasinski, CPA, Central Washington University
Jim Hudspeth, CPA, Washington Association of Accountants
Lauren Jassny, The Commerce Bank
James L. King Jr., Public Affairs Consulting, Vancouver CPAs
Robert Loe, CPA, Board of Accountancy Quality Assurance Review Committee
Gerald Miller, Washington Association of Accountants
Dana M. McInturff, CPA, Executive Director, Washington State Board of Accountancy
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Robert S. Nakahara, CPA, State Investment Board
Sharron O'Donnell, CPA, Experience Qualifications Committee, Board of Accountancy
J. Newton Rumble, CPA, Vancouver CPAs
Thomas Sadler, CPA, Former Member, Board of Accountancy
Gary Smith, Independent Business Association
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Laurie Tish, CPA, Member, Board of Accountancy
Carl Warren, Washington Association of Enrolled Agents
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